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SENT ELECTRONICALLY AND BY MAIL

December 17, 2003

Mary Cottrell, Secretary  
Department of Telecommunications and Energy  
One South Station, 2nd Floor  
Boston, MA 02110

**Re: *Boston Edison Company, D.T.E. 03-117***

Dear Secretary Cottrell:

On December 1, 2003, pursuant to G.L. c. 164, § 1A(a), and 220 C.M.R. § 11.03(4), Boston Edison Company ("BECo" or "Company") filed with the Department its 2003 reconciliation filing. The filing incorporates several rate change proposals to be effective on January 1, 2004. On December 4, 2003, the Department issued a Notice of the Filing and Request For Comments. Pursuant to that Notice, the Attorney General submits this letter as his Initial Comments.

BECo seeks approval of rates that will increase its average standard offer service rates by \$0.00206/kWh. Exh. BEC-HCL-5. The Company proposes the following changes:

- increase the transition charge from \$0.01840/kWh to \$0.02113<sup>1</sup>;
- decrease the average transmission charge from \$0.00751/kWh to \$0.00622;
- increase the default service adjustment charge from \$0.000 to \$0.00073/kWh; and
- increase the standard offer charge from \$0.0495 to \$0.0510/kWh.

In addition to class-specific transition charge adjustments (Exh. BEC-HCL-6), the Company proposes a revenue neutral distribution rate redesign affecting all classes. Exh. BEC-HCL, p. 4. The Company's proposed distribution rate redesign causes rate increases in the residential, R-1 rate class that will increase the average standard offer customer's monthly bill (500 kWh) by \$3.23 or 5%, when combined with the other proposed rate changes.<sup>2</sup> Exh. BEC-HCL-8(b).

The Attorney General requests that the Department: (1) initiate a formal investigation into the reconciliation filings; (2) reject the Company's redesigned distribution rates, including the implementation of the pension adjustment factor; and (3) require the Company to file new tariffs, documentation and workpapers supporting rates for effect January 1, 2004, consistent with Department precedent.

For the transition charge reconciliation, the Department should open an investigation into the Company's proposed reconciliation as it has for all prior Company filings. "[T]he Department must ensure that the proposed reconciliations are consistent with or substantially comply with the Electric Utility Restructuring Act, Chapter 164 of the Acts of 1997 ("Act") the company's approved restructuring plan, applicable law, and Department precedent." *Boston Edison Company*, D.T.E. 98-111, p. 4 (October 19, 1999). See *Boston Edison Company*, D.T.E. 98-111 (December 31, 1998); *Boston Edison Company*, D.T.E. 99-107 (January 4, 2000).

The Department should also reject the Company's proposed "revenue neutral" rate

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<sup>1</sup> According to Mr. LaMontagne's testimony, the maximum uniform transition charge that may be implemented for 2004 is \$0.01994. Exh. BEC-HCL, p. 6. The proposed transition charge of \$0.02113 includes both the class specific transition adjustment factors shown in Exh. BEC-HCL-6 as well as the pension adjustment factor of \$0.00089/kWh. Exh. BEC-HCL-5, n. 7. The pension adjustment factor was filed December 1, 2003 in compliance with the Department's order in D.T.E. 03-47-A. On December 10, 2003, the Attorney General filed a response to the compliance filing and requested an investigation into the proposed pension adjustment factor.

<sup>2</sup> Customers in other rate classes will see even higher bill impacts (For example, residential time of use customers, R-4 class will see an increase of more than 11% in their winter bills), while other customers, primarily commercial and industrial customers, see lower overall increases as some components of their distribution charges are reduced. Customer charges in all classes will increase inexplicably as part of the Company's proposal. Exh. BEC-HCL-8(b).

redesign. The Company has failed to file a prima facie case.<sup>3</sup> BECo did not provide any support for the rate re-design.<sup>4</sup> Nor has the Company given the public notice of this wide-sweeping proposal.<sup>5</sup> The Department does not accept even revenue neutral rate redesign proposals without investigation. *Commonwealth Gas Company*, D.P.U. 92-151 (1992) (denying revenue neutral rate redesign that increased rates for a single class); *Fitchburg Gas and Electric Light Company*, D.T.E. 00-107 (denying revenue neutral rate redesign to maintain 15% discount); *Eastern Edison Company*, D.P.U. 97-43 (1997) (unbundling of electricity rates, must be revenue neutral for the Company as a whole, each rate class and for each customer).

The Department should reject the proposed tariffs and order the Company to file new tariffs that comply with the requirements of the Restructuring Settlement, the Electric Utility Restructuring Act of 1997, and Department precedent. The new filing should also exclude the pension adjustment factor. Including the pension adjustment factor is premature given the unresolved issues regarding the compliance filing in D.T.E. 03-47. In addition, consistent with precedent, the Department should conduct an evidentiary proceeding, including adequate opportunity for discovery, cross-examination of witnesses and briefs.<sup>6</sup>

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<sup>3</sup> At a minimum, in order for the Department to review adequately the proposed rate redesign, the Company should demonstrate the benefits of the redesign; the bill determinants used, a comparison of current determinants and the rates proposed, evidence that the rate design determinants are representative of the period the rates will be in effect, any adjustments made to actual bill determinants in developing the rate design determinants, the calculation basis for the proposed design and how the Company developed the changes to the rate elements, and the most recent fully-allocated cost of service study showing class deficiencies based on current and proposed rates.

<sup>4</sup> The only evidence that BECo has provided to support its proposal is the testimony of its witness, Mr. LaMontagne, who states, "Now that the distribution rate freeze approved by the Department in D.T.E. 99-19 has expired, the Company is able to make some minor, revenue neutral distribution rate design changes to achieve a uniform 15 percent. . . ." Exh. BEC-HCL, p. 4.

<sup>5</sup> The public notice issued on December 4, 2003 did not indicate that distribution rates were going to change and increase for residential customers. See G.L. c. 30A § 11("Parties shall have sufficient notice of the issues involved to afford them reasonable opportunity to prepare and present evidence and argument.")

<sup>6</sup> Although the Department, in its Letter to Electric Distribution Companies, December 17, 1999, did not prohibit companies from proposing "...**minor**, revenue-neutral rate redesign, expressly to achieve the 15 percent reduction...to **avoid** distribution revenue shortfalls or **unacceptably large transition charge deferrals**," neither the Company's proposal nor the data submitted on December 16, 2003 in response to the Department's information requests meets the threshold requirements. Letter to  
(continued...)

Mary Cottrell  
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Sincerely,

Judith E. Laster  
Assistant Attorney General

cc: Robert W. Werlin, Esq.  
William Stevens, Jr., Hearing Officer

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<sup>6</sup>(...continued)

Electric Distribution Companies, December 17, 1999, p. 5, n. 6 (Emphasis added). Department precedent is clear regarding the process for approving redesigned distribution rates. "The Department traditionally has reviewed proposed changes to base rates by conducting a thorough review of the costs included in the COSS and the manner in which the costs were functionalized and allocated. A cost of service investigation typically takes six months to complete." *Cambridge Electric Light Company, Commonwealth Electric Company*, D.T.E. 97-111, p. 39.